PERSONAL EXPLANATION

HON. GEORGE R. NETHERCUTT, JR.

OF WASHINGTON

IN THE HOUSE OF REPRESENTATIVES

Monday, April 29, 2002

Mr. NETHERCUTT. Mr. Speaker, I was present on the floor during passage of H.R. 3231 (Roll no. 116) and intended to vote in favor of the bill. The record, however, does not reflect that I cast a vote. Apparently my vote was not electronically recorded; therefore, I wish the record to note that I fully support the bill.

PERSONAL EXPLANATION

HON. JIM KOLBE

OF ARIZONA

IN THE HOUSE OF REPRESENTATIVES

Monday, April 29, 2002

Mr. KOLBE. Mr. Speaker, on April 24, 2002, I was on the House Floor but inadvertently failed to vote during passage of H.R. 3763, the Corporate and Auditing Accountability and Responsibility Act. Had I voted, I would have voted ''yea'' on this vote (#110).

CORPORATE AND AUDITING ACCOUNTABILITY, RESPONSIBILITY, AND TRANSPARENCY ACT OF 2002

SPEECH OF

HON. MICHAEL G. OXLEY

OF OHIO

IN THE HOUSE OF REPRESENTATIVES

Wednesday, April 24, 2002

The House in Committee of the Whole House on the State of the Union had under consideration the bill (H.R. 3763) to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws, and for other purposes:

Mr. OXLEY. Mr. Chairman, I want to take this opportunity to clarify several matters on this legislation. First, I want to discuss a specific provision of the legislation. H.R. 3763 provides enhancements necessary to support the Securities and Exchange Commission in its role to protect investors of public companies, including the unique relationships of auditors to the absentee shareholder. It is not intended to extend to auditors of privately-held companies or other, smaller regulated entities. These entities are uniquely different from global public companies in many ways. For example, many of these smaller companies do not have large executive staffs. Instead, they rely on their CPA/auditor to provide objective, trusted advice and counsel on a broad range of tax and business issues. Extending the reach of these restrictions to such firms could create unintended harmful consequences to an important segment of the U.S. economy.

It is for this reason that the bill contains section 2(j), clarifying the application of the bill. This section is intended to ensure that public regulatory organizations are properly focused on the auditors of public companies with respect to their audits of such companies. It is not meant to apply to the thousands of American accountants that continue to provide trusted advice to their small business clients.

Second, Mr. Chairman, I want to take this opportunity to correct a specific error that appeared in the Committee's report on the legislation. On page 31 of the Committee Report (H. Rept. 107–414), the sponsor of amendment No. 1b(5) is incorrectly identified as Ms. HOOLEY of Indiana. The correct sponsor should be Ms. HOOLEY of Oregon. I regret any confusion caused by this error and apologize to the gentlelady from Oregon (Ms. HOOLEY).

Finally, Mr. Chairman, I am including for the RECORD the cost estimate prepared by the Congressional Budget Office on H.R. 3763. It was not available at the time the Committee's report was filed on the bill, and I am including it here to ensure a complete legislative history for the bill.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, April 26, 2002.

Hon. MICHAEL G. OXLEY,
Chairman, Committee on Financial Services, House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 3763, the Corporate and Auditing Accountability, Responsibility, and Transparency Act of 2002.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Ken Johnson (for federal costs), Paige Piper/Bach (for the private-sector impact), and Susan Sieg Tompkins (for the state and local impact).

Sincerely,

BARRY B. ANDERSON
(For Dan L. Crippen, Director).

Enclosure.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE, APRIL 26, 2002

[H.R. 3763: Corporate and Auditing Accountability, Responsibility, and Transparency Act of 2002, as passed by the House of Representatives on April 24, 2002]

SUMMARY

H.R. 3763 would establish a new board to oversee the accounting industry and would give the Securities and Exchange Commission (SEC) the authority to review the board's decisions. This new board would be known as the Public Regulatory Organization (PRO). Also, the act would require the SEC to review the financial statements of public companies no less than once every three years. H.R. 3763 would mandate that the agency receive and publicize certain filings related to insider trading in electronic format. The SEC and the General Accounting Office (GAO) also would be required to complete a number of studies and rulemakings within several months of enactment.

In addition, H.R. 3736 would allow the SEC to assess new civil penalties for violations of the act's provisions. The act also would require that any civil penalities collected by the SEC from Enron Corporation, or from Arthur Andersen L.L.C. concerning its audits of Enron, be paid directly to former Enron employees and others designated by the agency.

Based on information from the SEC, CBO estimates that implementing H.R. 3763 would cost about $150 million over the 2002–2007 period, assuming the appropriation of the necessary amounts. Under current law, the SEC's discretionary costs are offset by fees the agency collects from securities markets. Enactment of H.R. 3763 would not change the amount of fees expected to be collected in the future. CBO also estimates that H.R. 3763 would increase revenues and direct spending. Therefore, pay-as-you-go procedures would apply. We estimate that the net change in such effects would be insignificant each year.

H.R. 3763 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

H.R. 3763 would impose several private-sector mandates, as defined by UMRA, on certain accountants, companies that issue registered securities, officers and directors of those companies, and certain owners of the securities. CBO cannot determine whether the total direct cost of those mandates would exceed the annual threshold established by UMRA for private-sector mandates ($115 million in 2002, adjusted annually for inflation), as we do not have sufficient information to estimate the cost of prohibiting insider trading during blackout periods when investment activity is restricted.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 3763 is shown in the following table. The costs of this legislation would fall within budget function 370 (commerce and housing credit).

	By fiscal year, in millions of dollars				
	2003	2004	2005	2006	2007
CHANGES IN SPENDING SUBJECT TO APPROPRIATION [1]					
Estimated Authorization Level [2]	36	31	31	31	31
Estimated Outlays [2]	28	31	30	30	30

[1] H.R. 3763 also would have negligible net effects on revenues and direct spending.

[2] Subject to appropriation acts, the gross spending of the SEC is offset by fees the agency collects from securities markets. CBO estimates that the SEC collections will average about $1.6 billion a year over the next five years.

BASIS OF ESTIMATE

For the purposes of this estimate, CBO assumes that H.R. 3763 will be enacted by the end of 2002. Assuming appropriation of the necessary funds, CBO estimates that implementing H.R. 3763 would cost $150 million during the 2003–2007 period. The SEC's gross spending is offset by fees the agency collects from securities markets on transactions registrations, and mergers of securities. The act also would affect both revenues and direct spending, but the net impact would be negligible for each year.

Spending Subject to Appropriation

H.R. 3763 would require the SEC to review financial statements from every public company at least once every three years. Currently, the SEC employs about 300 people who review about 14,000 annual financial statements submitted by publicly traded companies at a rate of once every five to seven years. Based on information from the SEC, CBO expects that shortening the time between reviews to three years would require doubling the workforce that conducts such reviews. At current pay rates, CBO estimates that salaries and expenses for the new personnel would cost about $30 million a year, assuming appropriation of the necessary funds.

In addition, implementing two provisions of H.R. 3763 would require the SEC to upgrade its computer systems. First, the act would require the agency to establish a new rating system to review the financial statements of riskier companies more frequently. Also, the agency would have to receive and publicize electronically certain filings related to insider trading. Based on information from the agency, CBO expects that the computer upgrades needed to fulfill these requirements would cost about $1 million in 2003 and less than $500,000 every year thereafter, subject to the availability of appropriated funds.